

Railroad Unemployment Insurance System

**Annual Report Required by Section 7105
of the Technical and Miscellaneous
Revenue Act of 1988**



**U.S. Railroad Retirement Board
Bureau of the Actuary
June 2006**

ANNUAL REPORT REQUIRED BY THE TECHNICAL AND MISCELLANEOUS REVENUE ACT OF 1988

I. Introduction

Section 7105 of the Technical and Miscellaneous Revenue Act of 1988 requires the Railroad Retirement Board to submit an annual report to the Congress on the financial status of the railroad unemployment insurance system. The report must contain recommendations for financing changes that might be advisable, specifically with regard to rates of employer contributions. This report meets the requirements of Section 7105 for 2006.

II. Recent Developments

The maximum daily benefit remained at \$56 on July 1, 2005, and will increase to \$57 beginning July 1, 2006, and \$59 beginning July 1, 2007. The monthly tax base increased from \$1,130 in calendar year 2004 to \$1,150 in 2005, and to \$1,195 in 2006, based on increases in the railroad retirement tier I creditable base.

Average employment in calendar year 2005 was 233,000 (subject to later revision), 9,000 more than the most optimistic assumption in last year's report. Actual net unemployment and sickness benefits in fiscal year 2005 were \$5.2 million (6.7 percent) less than last year's projection. This year's report predicts that the 1.5 percent surcharge in calendar year 2006 will likely be followed by no surcharge for calendar year 2007 and a 1.5 percent surcharge for calendar year 2008. A 2.5 percent surcharge is expected for calendar year 2009.

III. Economic and Employment Assumptions

The economic and employment assumptions used in this report correspond to those used in the report required by Section 502 of the Railroad Retirement Solvency Act of 1983. Unemployment levels are the single most significant factor affecting the financial status of the railroad unemployment insurance system. Rapidly declining employment coupled with high unemployment levels, as occurred in the early 1980's, can put the system into debt. Conversely, cash balances can accumulate if employment declines are moderate and unemployment levels remain low. The experience-rating system is designed to tie individual employer contribution rates to their level of benefit claims, thereby adjusting the overall account balance to an appropriate level.

The three employment assumptions used, denoted A, B, and C, are shown in Table 1 at the end of the report. The projected tier I creditable limits, which determine both the railroad unemployment monthly wage base and the maximum daily benefit rate, are from the Social Security Administration's May 2006 Trustees Report, intermediate set of assumptions. Table 2 shows the tier I creditable limit, unemployment monthly earnings base and daily benefit rate assumptions.

IV. Results

Projections were made for the various components of income and outgo under each employment assumption for the 11 fiscal years 2006-2016. The results are summarized in Table 3. Average employer contribution rates under the experience-rated contribution system are weighted averages based on the relative size of each railroad's payroll.

Table 3 consists of three tables, one for each employment projection A, B, and C. The tables show (1) contributions, excluding the portion allocated to the Administration Fund, (2) net benefit payments, (3) other income and outgo, (4) the cash balance in the Railroad Unemployment Insurance Account (Account) at the end of each fiscal year, (5) the loan balance, if any, including accrued interest, (6) the Account balance at the end of each fiscal year, less loans due and (7) the average employer contribution rate for each calendar year.

The experience-rating formula is designed to keep the accrual balance of the Account, as of June 30, between \$100 million and \$250 million, indexed for changes in the taxable base. If the balance exceeds an indexed \$250 million, contributions are reduced by a pooled credit. If the balance falls below an indexed \$100 million, contributions are increased by a surcharge.

The June 30, 2004 balance¹ was \$98.6 million, above the indexed \$50 million surcharge threshold of \$56.4 million but below the indexed \$100 million surcharge threshold of \$112.9 million. As a result, a 1.5 percent surcharge was in effect for calendar year 2005. By June 30, 2005, the balance had risen to \$113.1 million, which was below the indexed \$100 million surcharge threshold of \$114.9 million. Consequently, a 1.5 percent surcharge is in effect for calendar year 2006.

¹ The balance referred to here and in the following paragraph is the accrual balance of the Account as of June 30, on which calculations of pooled credits and surcharges are based. Cash balances shown on Tables 3A-C are not used in these calculations. June 30 accrual balances are shown in Table 4.

Under each employment assumption, the Account balance is expected to be slightly above² the indexed \$100 million threshold in June of 2006. Consequently, no surcharge is expected in calendar year 2007. A 1.5 percent surcharge is projected for calendar year 2008, and a 2.5 percent surcharge is projected for calendar year 2009. Surcharges are likely to occur periodically thereafter. Under employment assumption C, short-term cash flow problems are likely in fiscal years 2008 and 2009, with full repayment of the loans by September 2009. The highest average contribution rate needed is under employment assumption C, where it rises to 5.55 percent for calendar years 2009-2010. This is well below the 12 percent maximum rate allowable.

Administrative expenses are assumed to be above the current level in almost all of the fiscal years 2007-2016. Nevertheless, the 0.65 percent of taxable payroll allocated to the Administration Fund is sufficient to finance administrative expenses during the projection period. When the accrual balance in the Administration Fund exceeds \$6 million at the end of a fiscal year, excess funds are transferred to the Account early in the next fiscal year. Under all employment assumptions, the accrual balance in the Administration Fund exceeds \$6 million at the end of each year in the 11-year projection period.

V. Recommendation

As stated in the introduction, the Congress directed the Railroad Retirement Board to make recommendations for financing changes that might be advisable, specifically with regard to rates of employer contributions.

No financing changes are recommended at this time. Projections under three different employment assumptions indicate that experience-based contribution rates will respond to fluctuating employment and unemployment levels and thereby maintain fund solvency.

² The difference between the expected June 30, 2006, balance and the expected indexed \$100 million threshold is quite small, less than \$1 million. Consequently, based on actual amounts which will be calculated later this year, it is entirely possible that there will be a surcharge of 1.5 percent in calendar year 2007. If that were to happen, we would expect a 1.5 percent surcharge in calendar years 2008 and 2009, with surcharges occurring periodically thereafter. Under all assumptions in this scenario, there would be no cash flow problems. The highest contribution rate would be under employment assumption C, where it would rise to 4.83 percent in calendar year 2011, well below the 12 percent maximum rate allowable.

Table 1: Employment Assumptions Used in 2006 Report

Calendar Year	Average Employment (thousands)		
	A	B	C
2005	233	233	233
2006	231	228	225
2007	229	224	217
2008	227	219	210
2009	226	215	202
2010	224	210	195
2011	222	206	189
2012	220	202	182
2013	218	198	176
2014	217	194	170
2015	215	191	164
2016	213	187	159

Employment assumptions A and B are based on the stability of employment in passenger service (Amtrak and commuter service) as distinguished from freight service. Employment assumption A is the most optimistic of the three assumptions. Employment assumption B is intended to provide a "moderate" assumption. Employment assumption C follows the structure of assumptions A and B, except that it has declines in passenger employment and steeper declines in freight employment than employment assumptions A and B.

Employment assumptions A and B assume passenger employment remains level at 43,000. Non-passenger employment declines at a constant annual rate (1.0 percent for assumption A and 2.5 percent for assumption B). Employment assumption C assumes that passenger employment declines by 500 each year and non-passenger employment declines at a constant rate of 4.0 percent.

**Table 2: Annual Tier I Creditable Limit, Monthly RUI
Taxable Limit, and Maximum Daily Benefit Rate**

Calendar Year	Annual Tier I Limit	Monthly RUI Limit	Maximum Daily Benefit Rate [1]
2005	\$90,000	\$1,150	\$56
2006	94,200	1,195	57
2007	98,400	1,240	59
2008	102,300	1,285	62
2009	106,800	1,330	64
2010	111,300	1,380	66
2011	116,100	1,430	69
2012	120,900	1,480	71
2013	126,000	1,535	74
2014	131,400	1,590	76
2015	136,500	1,645	79
2016	141,600	1,700	82

[1] Effective for registration periods beginning after June 30 in the calendar year.

Table 3A. Progress of the Railroad Unemployment Insurance Account Under Assumption A
(Dollar Amounts in Millions)

Fiscal Year	Account Contributions [1]	Net Benefit Payments	Other Income and Outgo [2]	Account Cash Balance Year End	Loan Balance Year End [3]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
2006	\$64.5	\$77.1	\$9.6	\$94.2	\$0.0	\$94.2	2006	2.50
2007	39.8	82.8	10.9	62.1	0.0	62.1	2007	1.13
2008	53.3	87.0	8.4	36.9	0.0	36.9	2008	3.16
2009	114.6	90.3	9.8	71.0	0.0	71.0	2009	4.42
2010	125.7	92.4	13.1	117.5	0.0	117.5	2010	3.60
2011	83.6	95.1	15.5	121.5	0.0	121.5	2011	2.06
2012	53.5	98.2	15.1	91.9	0.0	91.9	2012	1.95
2013	78.6	100.4	14.0	84.2	0.0	84.2	2013	3.21
2014	115.4	103.4	15.1	111.3	0.0	111.3	2014	3.61
2015	112.8	105.5	17.0	135.6	0.0	135.6	2015	2.95
2016	86.3	109.1	17.9	130.8	0.0	130.8	2016	2.28

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] Income includes interest on investments and transfers from the Administration Fund of amounts in excess of \$6 million at the end of the previous fiscal year. Outgo includes funding for the Office of Inspector General.

[3] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.

Table 3B. Progress of the Railroad Unemployment Insurance Account Under Assumption B
(Dollar Amounts in Millions)

Fiscal Year	Account Contributions [1]	Net Benefit Payments	Other Income and Outgo [2]	Account Cash Balance Year End	Loan Balance Year End [3]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
2006	\$64.1	\$77.1	\$9.6	\$93.8	\$0.0	\$93.8	2006	2.50
2007	39.2	86.3	10.6	57.3	0.0	57.3	2007	1.13
2008	52.9	92.0	7.5	25.8	0.0	25.8	2008	3.24
2009	118.9	97.3	8.2	55.6	0.0	55.6	2009	4.87
2010	135.7	101.0	11.1	101.5	0.0	101.5	2010	4.10
2011	100.1	102.5	13.3	112.4	0.0	112.4	2011	2.78
2012	67.3	104.3	13.2	88.6	0.0	88.6	2012	2.21
2013	77.8	105.6	11.5	72.4	0.0	72.4	2013	3.28
2014	114.5	107.6	11.7	91.0	0.0	91.0	2014	4.10
2015	122.8	108.6	13.1	118.3	0.0	118.3	2015	3.62
2016	95.1	110.6	14.0	116.9	0.0	116.9	2016	2.58

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] Income includes interest on investments and transfers from the Administration Fund of amounts in excess of \$6 million at the end of the previous fiscal year. Outgo includes funding for the Office of Inspector General.

[3] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.

Table 3C. Progress of the Railroad Unemployment Insurance Account Under Assumption C
(Dollar Amounts in Millions)

Fiscal Year	Account Contributions [1]	Net Benefit Payments	Other Income and Outgo [2]	Account Cash Balance Year End	Loan Balance Year End [3]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
2006	\$63.7	\$77.1	\$9.6	\$93.4	\$0.0	\$93.4	2006	2.50
2007	38.6	92.0	10.2	50.2	0.0	50.2	2007	1.13
2008	52.8	103.7	12.4	11.8	6.3	5.5	2008	3.36
2009	125.8	115.2	-0.7	21.7	0.0	21.7	2009	5.55
2010	162.0	123.1	8.0	68.7	0.0	68.7	2010	5.55
2011	142.6	122.5	10.4	99.2	0.0	99.2	2011	4.35
2012	101.1	123.3	11.1	88.1	0.0	88.1	2012	3.04
2013	88.7	123.2	9.2	62.9	0.0	62.9	2013	3.61
2014	114.6	123.3	8.0	62.2	0.0	62.2	2014	4.59
2015	133.6	122.8	8.1	81.1	0.0	81.1	2015	4.76
2016	124.0	123.2	8.8	90.8	0.0	90.8	2016	4.01

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] Income includes interest on investments and transfers from the Administration Fund of amounts in excess of \$6 million at the end of the previous fiscal year, and loans from the Railroad Retirement Account. Outgo includes funding for the Office of Inspector General and repayment of loans, including interest.

[3] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.

Table 4. June 30 Accrual Balance of the Railroad Unemployment Insurance Account
(Dollar Amounts in Millions)

Year	Employment Assumption A		Employment Assumption B		Employment Assumption C	
	Account Balance	1.5 Percent Surcharge Threshold	Account Balance	1.5 Percent Surcharge Threshold	Account Balance	1.5 Percent Surcharge Threshold
2006	\$121.3	\$120.3	\$120.7	\$119.9	\$120.2	\$119.5
2007	87.4	123.7	82.5	121.8	75.6	119.6
2008	64.0	127.2	52.9	124.0	33.3	119.8
2009	98.5	130.8	83.1	125.7	50.3	119.9
2010	145.4	134.7	129.2	127.6	97.4	119.6
2011	150.6	138.5	140.6	129.5	127.9	119.9
2012	121.6	142.1	116.6	131.5	116.2	120.1
2013	114.7	145.9	100.9	133.6	91.0	119.9
2014	141.9	150.0	119.3	135.7	89.7	120.2
2015	166.7	154.5	146.6	137.9	108.4	120.2
2016	162.3	158.3	145.1	140.2	117.3	120.1

The June 30, 2005 accrual balance was \$113,140,562.89. The indexed 1.5 percent surcharge threshold was \$114,881,153 and the indexed 2.5 percent surcharge threshold was \$57,440,576.50.

The experience rating system provides for a surcharge in the employer contribution rate when the Railroad Unemployment Insurance Account balance falls below certain thresholds. The 1.5 percent surcharge threshold is the greater of \$100 million or the amount that bears the same ratio to \$100 million as the system compensation base as of that June 30 bears to the system compensation base as of June 30, 1991. The 2.5 percent surcharge threshold (not shown) is indexed from a \$50 million base.